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20 June 1985

MEMORANDUM FOR THE RECORD

SUBJECT: SIG(Space) Meeting on Monday, 17 June 1985

1. Admiral Poindexter chaired the meeting beginning with a status review of the Issue Paper, which had been shortened and further modified to include the OMB and CEA options. He stated that it was his intent to modify the five-page issue paper to be a fair "honest broker" account of the issue for the President by the end of this month. [REDACTED]

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2. Joe Wright, Deputy Director of OMB, described the OMB option. He stated that he was concerned about an oversupply of launch services and did not agree that Arianespace will raise prices up to the level of a new Shuttle price above about \$110M. He described the option as covered in the Issue Paper, but added two new features: a volume discount and the ability to lower the price if the launch date was less than two years in the future. [REDACTED]

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3. Beryl Sprinkel, Chairman of the Council of Economic Advisors, described the CEA option. He stated, that from an economic standpoint, we should seek an approach which would deal with the uncertainties relative to supply and demand, provide a reasonable return to the Government, and include no undue subsidies. He then described the CEA option, as covered in the Issue Paper, which would provide for an annual auction with a floor price. [REDACTED]

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4. Bud Brown, Deputy Secretary of Commerce, spoke next and stated that Commerce had recently reassessed the Shuttle pricing objectives. He said that the two toughest ones to meet were recovering full cost while also maintaining leadership with respect to the foreign competition. He then introduced what amounted to a completely new Commerce approach to pricing. (After the meeting Dick Shay, DoC's representative to the SIG[Space] Working Group, explained that the decision was made by Secretary Baldrige just one hour prior to the meeting. Baldrige now believes that the overriding priority is the need to compete successfully with Ariane.) He stated that the fixed costs of operating the Shuttle should be completely covered by the Government flights and that the commercial and foreign customers should only be asked to reimburse the Government for the variable or marginal costs. He stated that Commerce had consulted with the Hill, and they had indicated that the variable

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costs were close to the \$33M figure quoted by NASA. He also stated that customers should pay something like \$20M per flight for amortization of a possible additional orbiter. Brown also discussed US ELV competitiveness and GATT trade considerations, and added that he was bothered by the market auction concept. [REDACTED]

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5. Jim Beggs spoke next and said that he agreed with all of them and said we can work out the details. [REDACTED]

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6. Jim Burnley, Deputy Secretary of Transportation, asked about the extent to which the Shuttle base costs actually were fixed and asked why the Government could not cut back the Shuttle program if the Shuttle capacity would indeed exceed the currently projected Government demand. He further noted that none of the lower priced approaches were in any sense full-cost recovery and that the President, if he approved one of these options, should also rescind or revise NSDD 94 and NSDD 144. [REDACTED]

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7. The DDCI then stated that if the Government users were going to pay the full cost of the Shuttle's base program, and the private sector users were not, then maybe he should try to figure out a way to fly on a Shuttle as a private sector user. Jim Beggs responded that the marginal pricing approach would have no effect on the price charged to the National Security users. He further stated that, in the long run, charging a low price would be better for National Security users because no revenues would be forthcoming at the higher prices. [REDACTED]

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8. Joe Wright said that something in the neighborhood of \$100M would be a fair price. [REDACTED]

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9. Beggs was asked if he would have any difficulty in administering either Options 4 or 5. He said he did not anticipate any significant administrative problems, but felt that there could be political problems in having different prices for different customers. [REDACTED]

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10. Burnley said that it was important that the Issue Paper tell the President what the impact of his decision would be on the various Administration objectives. He reiterated his point that several of these options will effectively eliminate private sector ELVs and that the President should be told that he would have to rescind or modify NSDD 94 and NSDD 144. After a short discussion of DoT's proposed new paragraphs describing the conclusions of the OMB and CCCT studies, Poindexter reluctantly agreed to include these topics along with a NASA contribution on the same subjects. [REDACTED]

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11. Brown spoke again and stated that US ELVs should be compared with the Ariane and other foreign ELVs and not with the Shuttle. He said if we wanted to establish a commercial ELV industry we should consider subsidies. [REDACTED]

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12. Poindexter said that he saw considerable merit in the CEA option. In particular, it solved a difficult definitional problem with respect to what might constitute full-cost recovery. Poindexter asked OMB to review Government regulations, etc., and report back on how full-cost recovery should be defined. [redacted]

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13. Beggs said that we should ask industry CEOs to give their views on the issue. [redacted]

[redacted] Burnley responded to this by saying that he would agree to including CEO views if we also included the contents of the phone calls that NASA was making to these CEOs. [redacted]

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14. Poindexter concluded the meeting by specifying the following actions: [redacted]

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-- All agencies which are modifying their options are requested to circulate descriptions of these options no later than Thursday of this week. This would include OMB, Commerce, and Defense (which volunteered to distribute a draft of a modification to Option 2).

-- The modified options are then to be included in a redraft of the Issue Paper. The redraft will address the options in terms of the implied priorities associated with the various Presidential objectives.

15. Gil Rye said that he was "delighted" with the prospect of doing yet another draft of the Issue Paper. He said that he would call a meeting of the Working Group as soon as the new descriptions of the options were available. See Attachment B. [redacted]

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16. The DDCI had to leave the meeting at about 1600 hours. [redacted] sat in for the DDCI until the meeting adjourned at approximately 1630 hours. [redacted]

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17. Comment: Baldrige's new position and the letter [redacted] have reduced DoI's prospects for a favorable outcome. Much of the discussion was focused on improving NASA's pricing flexibility so that they can successfully compete with Ariane. The SIG(Space) members, therefore, appeared to endorse implicitly this objective as the highest priority. [redacted]

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[redacted]
Deputy Director for Policy
Planning and Policy Staff

Attachments:

b. Letter from Gilbert D. Rye, NSC

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NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

June 19, 1985

MEMORANDUM FOR THE SIG(SPACE) WORKING GROUP

SUBJECT: Direction from SIG(Space) Meeting

As a result of the discussion and direction at the SIG(Space) meeting on June 17, 1985, we will proceed as follows on the Shuttle pricing issue:

- Agencies wishing to modify their options will do so and discuss their contents with other interested agencies. (During the meeting, DOC, DOD, OMB and CEA offered comments indicating revision of the options provided in the current draft of the issue paper.)
- The issue paper will include a discussion of the CCCT and OMB studies along with the NASA rebuttal.
- Each option will provide a brief description of the implied national priorities should the President select that option.
- The description of each option will place primary emphasis upon the pricing concept rather than the specific price.

We will have a SIG(Space) Working Group meeting on Friday, June 28, 1:00 p.m., Rm 248, OEOb. Please come to the meeting with inserts to the issue paper consistent with the above direction. We will devote the meeting to a discussion of the options. Following the meeting I will take the papers which you have provided and redraft the issue paper, coordinate it with the White House Staff and provide it to the SIG(Space) members prior to the next SIG(Space) meeting. Please keep all of your papers as short as possible so that I will know the main points that you are trying to convey. In the absence of agency-drafted inserts, I will do my best to capture the relevant points.


Gilbert D. Rye
Director of Space Programs